

TO: Files

CC: Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Kelly Salt, October 17, 2005

DATED: October 28, 2005

On Monday, October 17, 2005, Michael Schachter and Sharon Blaskey, in Willkie Farr's capacity as counsel to the Audit Committee, interviewed Kelly Salt. She was represented by counsel, Shirli Weiss of DLA Piper Rudnick Gray Cary. Also in attendance were Omid Yazdi and Megan Peticolas of KPMG, and Troy Dahlberg for the Audit Committee. The interview took place in a conference room on the 3rd floor of the City Administration Building and lasted approximately two hours. Ms. Weiss requested that Ms. Salt have the opportunity to review and correct the interview summary and was told that she could not since the memo was protected work product.

The following memorandum reflects my thoughts, impressions and opinions regarding our meeting with Kelly Salt, and constitutes protected work product. It is not nor is it intended to be a transcript of the interview.

Warnings

Mr. Schachter began the interview by explaining to Ms. Salt that the Audit Committee's purpose was to develop facts related to a variety of issues concerning the City's financial reporting. He explained to Ms. Salt that we represent the Audit Committee and not Ms. Salt personally, and that the conversation was not protected by the attorney client privilege. He requested that she keep the content of the interview confidential. He further told her that the report may ultimately be shared with government regulators, including the S.E.C. and the U.S. Attorney's Office, and therefore it is particularly important to be accurate and truthful.

Ms. Weiss noted that Ms. Salt does not have access to all of the documents which may have been produced to the Audit Committee and others. She stated that, to the extent Ms. Salt is shown a document that they have not had a chance to consider, they will take their time to consider it, and have a separate conversation if necessary. She emphasized that a significant amount of time is involved in the investigation, that it goes back a number of years, that Ms. Salt attends thousands of meetings a year, and for these reasons Ms. Weiss does not want Ms. Salt to make any comments off the cuff, especially in light of "where the report could end up." Mr. Schachter confirmed that Ms. Salt can take her time in answering the questions.

Background

During the period of time roughly between 1998 and 2002, Ms. Salt served as an advisory attorney in the City Attorney's Office ("CAO") of the City of San Diego (the "City"). In that capacity she worked with various departments in providing legal advice, in particular with the financing services departments, park and recreations, the special projects division for special events and corporate sponsorship, and the development program. Her work for these departments included working on bond financing matters. In advising on "bond financing," her responsibilities included hiring bond and disclosure counsel, working with bond and disclosure counsel in reviewing documents, and generally advising departments on issues pertaining to disclosure and bond documents. Outside bond counsel was responsible for drafting the actual bond documents. Disclosure counsel was responsible for the Preliminary and Final Official Statements and various disclosure documents. Ms. Salt worked with the finance teams that review the documents. Typically, individuals were responsible for preparing different sections, or they would need to contact those most knowledgeable to prepare them. Ms. Salt was responsible for preparing and coordinating the litigation sections. In her experience, disclosure counsel typically set a requirement to disclose filed litigations with exposure in excess of \$10 million.

Ms. Salt was shown Exhibit 1 (DK 8862), a document with a handwritten date of 12/2/98, which listed "Required items for the wastewater system POS." First, Ms. Salt confirmed that the handwriting on the document was not hers. The document included names in bold and underlined, with page numbers. Ms. Salt said that she is not familiar with the document and does not recall it. Her name is listed on it by an item stating, "wastewater system regulatory requirements." Ms. Salt was shown Exhibit 2, a 1999 Preliminary Official Statement for A and B series bonds. As to this document, she does not think she was involved in drafting it and thinks that Ted Bromfield was. Regarding Exhibit 1, she clarified that Jacqueline Mittelstadt (also referenced in that exhibit) is now Jacqueline Lindsey, but Ms. Salt does not think Lindsey had a role in preparing wastewater bond offerings. As far as Ms. Salt recalls, Lindsey was just beginning to be involved in financings at that time. Ms. Salt described that, in connection with the 1999 offering, she would have been responsible for obtaining the information relating to general pending litigation.

Moving to the next subject, Mr. Schachter asked Ms. Salt about a closed session meeting of the City Council on January 29, 2002. Ms. Salt said that she recalls attending a closed session meeting. Her recollection is that Kahlie contacted her to ask her to have the City Council go into closed session to discuss whether to continue to comply with the noticing provisions of Prop 218. She recalls there had been some questions over the years about whether the City should continue to comply with it. Reasons against compliance included the fact that it is burdensome and expensive. She does not recall the specific impetus for Kahlie wanting to go into closed session, but she does recall that it was his request that the issue be discussed in closed session, rather than in a session open to the public. The CAO prepares the closed session agenda and in order for an item to go into closed session it must meet certain requirements under the Brown Act. Ms. Salt understood from Kahlie that if the City opted not to continue complying with Prop 218's noticing provisions there could be significant litigation from ratepayers.

Ms. Salt was next shown Exhibit 3, a November 19, 2002 closed session agenda sheet (No bates). Ms. Salt does not know who prepares these types of documents. She had, prior

to that closed session, prepared a closed session report, and appeared before the Council in a January 2002 closed session on that report. She was specifically recalling a memo she wrote in December 2001, which she described as a 2-3 page memo that was initially drafted by Kahlie, with her input, and then submitted to the Council. She does not recall the title of the memo but she does recall the underlying issue in it was whether or not the City should continue to comply with Prop 218, and that the memo was limited to that subject matter and did not extend to the issue of compliance with State revolving fund ("SRF") loan contracts. Looking at the attendance sheet for the January 29, 2002 closed session (Exhibit 4, no bates), Ms. Salt acknowledged that she is listed as an attendee of the closed session meeting. She said that she recalls the meeting. She gave a verbal presentation regarding Prop 218 issues there, and outlined the advice to continue to comply with Prop 218 because there were outstanding bonds, and therefore, in the event the City ceased to comply with Prop 218, there could be a disclosure issue. She identified that as a potential disclosure issue because the City had already disclosed in previous disclosures the various aspects of Prop 218, so in the event the City then declined to comply with it, they would need to disclose. She recalls that the City Council's response was that they were in favor of continuing to comply with Prop 218.

Ms. Salt also recalls in the January 2002 closed session a segue that moved to the subject of the City's Cost of Service Study ("COSS"). She does not recall what the ultimate decision was regarding the COSS, but generally she recalls a discussion that there had been a COSS prepared pertaining to the sewer user rate structure, and that Kahlie spoke on that issue. That description, she said, was "about as much as she recalls [Kahlie] saying." In essence, he stated that a COSS had been prepared to address issues regarding the sewer rate structure, and that staff wanted to complete the COSS.

Ms. Salt was then shown Exhibit 5, a November 13, 2002 email from Kahlie to Ms. Salt and others, attaching a memo entitled "Salient Points." (Eric Adachi 7CAB - MSTB Sewer COS Box 1 Folder "D" 00001.) Ms. Salt said that she did not recall the document at all. Ms. Weiss then stated she had not seen the document before and asked for more time to review it before Ms. Salt answered any questions. Ms. Salt and Ms. Weiss convened outside the conference room to discuss the document. When they returned, Ms. Salt confirmed that she does not recall the document. Mr. Schachter pointed out that the email reflects that the document had been sent to Ms. Salt. Ms. Salt acknowledged that, as a general business practice, she reads the emails that she receives, and she does not recall a time where she had email problems that would have prevented her from receiving the email. Drawing Ms. Salt's attention to the last page of the Salient Points document, the first complete bullet references the closed session in January 2002 in which (according to the memo) the issue of compliance with Prop 218 was raised, which "lead to a discussion of the SWRCB's proportionate to use billing requirements, . . . and direction that the City Attorney report back on the City's obligation to comply with the billing requirements contained in the grant and loan documents it had signed." Ms. Salt confirmed that she does recall that discussions of Prop 218 led to a discussion of compliance with the SWRCB requirements. She recalls that when the COSS was raised, the issue was whether or not to complete it, and all she recalls from the general discussion was that the Council directed that unless the CAO told them they had to finish the COSS, "they were not inclined to complete it." As to why that was the Council's position, she does not know, but recalls Jim Madaffer making a statement to that effect. His concern was that there had just been a series of rate increases. That is all she recalls specifically. She does not specifically recall Madaffer saying, "Let 'em sue us."

Nor does she recall discussions to the effect that there would have to be litigation before anything would be done to address the compliance issue.

The only thing she can recall about the segue to the COSS was that it was in relation to the proportionate-to-use requirements in Prop 218. She does not recall whether anyone at the January 2002 closed session meeting told Council of the SWRCB requirements. Prior to this meeting, as to whether she was familiar with the SWRCB requirements of how sewer user rates needed to be set up, Ms. Salt said she had "general familiarity." The familiarity was based on discussions between December 2001 and January 2002 about the fact that the City was doing the COSS to comply with certain requirements: specifically, that the COSS was being done so that the City would have a revenue program that would comply with the SWRCB requirements and be approved by the Council. She became familiar with the compliance issues through discussions with Kahlie. He told Ms. Salt that there was a COSS that they wanted to complete, and he wanted to "bring it forward to have a revenue program adopted by the Council that was acceptable to the [SWRCB]." Throughout these conversations between Ms. Salt and Kahlie, Kahlie said that the City was not in compliance with SWRCB's requirements.

Walking into the January 29, 2002 closed session, Ms. Salt knew that the City had been the recipient of SRF loans, but she did not know what the dollar amount of those were, and, for example, she does not recall knowing even more specifically that the amounts were more than 100 million (or any other ballpark number). She simply does not recall having an understanding of the magnitude of the loans. Prior to January 2002 she did not specifically have any understanding that SRF loan contracts required that the City adopt rate structures proportionate to use, though she acknowledged that she did know generally that the loans and grants had conditions. She knew of the conditions in the context that all grants come with conditions, but she does not recall whether she was familiar with any of the specific conditions. She also does not recall knowing at the time of closed session that a breach of the loans could result in their being recalled. She knows that after closed session she did have the understanding that one such condition had to do with having a compliant user rate system, but she cannot say what she knew at the time she went into closed session.

With regard to Ms. Weiss's concern over Mr. Schachter's use of certain terminology, Mr. Schachter emphasized that he was not asking Ms. Salt to adopt his (or any) terminology, and that if any terminology was unclear, Ms. Salt simply needed to ask him to clarify.

Again revisiting Ms. Salt's recollection of the January 29, 2002 closed session, in addition to not recalling references being made to the amount of outstanding State low interest loans or grants, she claimed not to recall specifics relating to these discussions at all, and she again reiterated that she only recalls references to the COSS, and staff wanting to complete it in order to "get a user rate structure adopted by the Council that would be acceptable to the State." Again, she stated she did not recall references to the potential recallability of the loans.

As to whether Ms. Salt, today, has any familiarity with the subject matter of proportionate-to-use requirements, she said that her understanding was that the State advised that an organics component needed to be included in order for the State to approve a revenue program. However, Ms. Salt does not recall Kahlie telling the Council that in the January closed session, nor does she recall Kahlie telling her that prior to the January 2002 closed session. Ms.

Salt also said that prior to the January closed session meeting, she did not have any understanding that the City was billing Participating Agencies ("PA's) with an organics component but not its retail users, and she does not recall Kahlie telling the Council that during the closed session.

Regarding pages 2-3 of the Salient Points memo at Exhibit 5, Ms. Salt was directed to the last bullet point that states that: "The municipal billing structure was not brought into compliance with SWRCB requirements in 1997 because of concerns about the adverse impact of so doing on certain large volume dischargers of organics in a then-soft economy. SWRCB did not take issue with this situation because it was under the mistaken impression that the PA billing structure it had approved was applicable to the City's municipal users as well." Ms. Salt does not recall hearing this. She knew there was a COSS undertaken and that a stakeholders group was formed, but beyond that she was not working on that project. She does not recall having information from any source going into the closed session to the effect that the State was "under a mistaken impression," nor does she recall Kahlie telling this to Council in closed session. She recalls that the discussion in closed session lasted about 10 minutes, and that the issue that came up was whether to complete the COSS. She thinks Kahlie raised it. In response to why the COSS would not be completed, Ms. Salt stated that she did not know. Nor does she recall Kahlie specifically asking the Council to approve its completion, but rather, it was just a topic of discussion. She does not recall anyone giving a reason why the COSS would not be completed. Other than generally recalling Kahlie saying he wanted to go forward with it, she recalls no specifics of what he said. She does not recall the reasons he offered for why the study should be completed. She does not recall him stating that the City was in breach with its current structure. She only recalls generally that Madaffer spoke in response to Kahlie's comments, saying something to the effect of not wanting to complete the COSS unless the CAO told them they had to. She also recalls his general statement about how the City just went through rate increases and was already having to deal with a whole new rate structure. But she does not recall anyone saying anything about user rates being non-compliant. In response to whether the City Council directed Ms. Salt to do anything to follow up on this issue after the meeting, Ms. Salt said, "No."

Exhibit 6 is a draft memo dated March 6, 2002 from Mark Diefenderfer to Ms. Salt. Ms. Salt said that she is familiar with the document and that Diefenderfer was her paralegal. Ms. Salt asked Diefenderfer to do some follow up research on the issue of the COSS. She asked him to do it because of the statement at closed session that unless the CAO told them they had to, they would not finish the COSS. Ms. Salt asked Diefenderfer to research the issues and obtain relevant grant documents. She asked him what the nature of the grant conditions were, what the City was required to do, and what the impact of the failure to comply would be. She believes she discussed the memo with Diefenderfer but does not specifically recall what they discussed. Ms. Salt was shown Exhibit 7 (October 31 draft memo) and Exhibit 8 (final memo, dated Nov. 14, 2002 from Vattimo and Ms. Salt to the Mayor and City Council). Ms. Salt prepared the memo to respond to the question raised by the City Council, and provided it to the Mayor and City Councilmembers when it was completed. Among those who were involved in the preparation of the memo were people in the wastewater department that provided documents to Diefenderfer, and Kahlie, who also provided documents to him. Regarding the drafts of the memo that Ms. Salt prepared, she said she forwarded copies to Kahlie and Bromfield (since he was most familiar with the issues). She also thinks it would have been routed through the CAO

and reviewed by Keri Katz (her supervising attorney). It is also supposed to be reviewed by the City Attorney (Casey Gwinn), and could have been routed to Les Girard, Assistant City Attorney. Though the memo was sent from Vattimo as well, Ms. Salt does not recall Vattimo being involved in drafting the memo and thinks she was listed on it because her department (via Kahlie) had initiated going into closed session, so that would be standard practice. Ms. Salt does not recall having discussions with Vattimo about the memo either before it was circulated or after. Ms. Salt was then shown Exhibit 9, a December 6, 2001 memo to the Mayor and City Council, which Ms. Salt thinks is a draft of the December 2001 memo Ms. Salt referred to earlier as having been prepared regarding Prop 218 compliance in advance of the January 2002 closed session. However, to Ms. Salt, the memo does not appear to be a final document, and she supposes that the final one had Vattimo's name on it as well.

There was no closed session meeting to discuss Exhibit 8, Ms. Salt's final November 14, 2002 memo. Ms. Salt's understanding of why there was no closed session came from Leslie Devaney, who said she had conversations with Donna Frye and it was decided that the issue did not need to go to closed session. Ms. Salt's understanding was that the Council had the CAO's legal opinion and so there was no need to go to closed session about it. The opinion contained in Exhibit 8 was a recommendation to proceed with completing the COSS. At page 5 of Exhibit 8, under the heading "Discussion," the document states generally that the wastewater department has not been in compliance with the State's requirements but is generally moving toward it. Ms. Salt's understanding of why it took since 1999 to get into compliance was that there had been a lot of meetings with interested parties ("stakeholders") and there was disagreement among interested parties as to what was a "proportionate to use" revenue program. Ms. Salt said that it was an "iterative process" and that it takes a long time to bring these things forward.

Notwithstanding her November 14, 2002 memo, Ms. Salt maintained that she did not think the City was "out of compliance" with loan conditions. The State had been monitoring the City and there had been "substantial communication" between the City and the SWRCB as to the type of methodology to be employed by the City. Moreover, there had not been any communication from the State that said that the City was not in compliance. Ms. Salt acknowledged that there was still the condition that they needed to have a revenue program approved, but when she used the phrase "not in compliance" in her November 2002 memo, what she really meant was that the program had not been approved yet. Mr. Schachter asked her whether it was her opinion that the City was not in compliance with EPA requirements, and she stated that she now thinks that "compliance" was "not the right word" for her to have used. The reason for her comment, she said, was that the loan covenants contemplated moving toward a program that would be approved, and that was what they were doing. She does not think they were "out of compliance" with the CWA guidelines *per se*. Ms. Salt was asked if, as of the time she wrote her memo in November 2002, she believed the wastewater department was in compliance with SWRCB requirements. Ms. Salt responded that, at that time, her understanding was that they were "working toward getting a revenue program approved." As such, she believed that they were not in breach of contract since they were following the requirements to have a program that was *to be* approved by the SWRCB. In essence, her position was that she did not believe at the time she wrote the memo that they were in breach of contract, since they were engaging in a cooperative process with the State. Based upon Ms. Salt's conversations with Kahlie and Bromfield, along with individuals in the wastewater department (including

Richard Enriquez and others, but especially Kahlie), she understood that they were working toward a program that would be acceptable to the State.

On pages 2-3 of Exhibit 7, Mr. Schachter asked what Ms. Salt meant when she stated: "With the introduction of secondary treatment facilities in the City's Metropolitan Sewerage System, and the City becoming subject to a revised [NPDES] permit, which required removal of biological component from effluent, the user charge system again became non-compliant." She said what she meant by "non-compliant" was "not acceptable to" the SWRCB. The SWRCB advised the City that it needed to change its user charge system. Ms. Salt was essentially making the distinction of the City's having not been in compliance with the requirements for a user charge system, versus not being compliant with the loan covenants. She would characterize her view of the City's status at the time she used the term "non-compliant" in her memo as having been the former status, not the latter.

Moreover, Ms. Salt added, the State needed to notify the City in writing if it found the City to be out of compliance with the user charge system, using the administrative notification process in the contracts. Under the agreements, Ms. Salt said, nothing could happen until the administrative process was first completed. Going back to Exhibit 8, at the first paragraph under recommendations on page 6 which listed the various consequences for non-compliance, she said that she did understand that the consequences enumerated could result if the system was non-compliant, but only provided that the administrative steps were followed first. She referred back to the earlier draft of her memo (Exhibit 7 at page 6, MWWD-BH – 10845) which contained references to the administrative proceeding requirements. When asked who edited out the "administrative" language, she did not know but said that the memo was sent to Bromfield and Kahlie who edited it. She thinks she physically removed the language but that she did it at the recommendation of someone else.

Ms. Salt was then asked whether (1) she considered whether the user charge system complied with the Clean Water Act, (2) whether she considered whether lack of compliance gave rise to a \$370 million liability, and (3) whether, when she completed the memo (Exhibit 8), she gave any thought to whether the City had a \$370 million liability? She responded that she only thought there was a liability if the City did not go forward with the COSS and did not have a plan that the State could approve. Upon completion of the memo, as to whether she considered whether the City's user charge system being out of compliance with the Clean Water Act gave rise to a liability, she stated that she does not recall thinking of it in terms of a liability. She said that what she considered was whether the City had to comply with completing the COSS in order to get a program approved by the City Council. It was her view that if the answer was that the COSS would be completed, then the acceleration provisions "went away," because there was no breach of contract. It was her view that the reason the COSS needed to be completed was to avoid possible acceleration, and she believed if they did not go forward with the COSS and revise the City's user rates, one possible consequence was that the State could accelerate loans, but only after the administrative process was completed. She emphasized that there was no notification from the State that the State was even looking at the loans or that the City was in breach of contract.

Ms. Salt did acknowledge that in the final draft of her memo (Exhibit 8) there is no mention of the administrative process. Ms. Salt also said that if the City left user rates as they were in 2002, one possible consequence was that the State could pursue the administrative

procedure and demand repayment, if the COSS were not completed. In her mind the issue was that a revenue program acceptable to the State needed to be approved, and that a rate structure was needed that would be acceptable to the State and adopted by the City Council.

Regarding disclosure, Ms. Salt was asked whether, in her mind, she thought that the City's position as of November 2002 gave rise to any potential issue that needed to be disclosed to the market, for example, either the next time bonds were issued, or in annual financials. In other words, was consideration given, at that time, to any disclosure issue in connection with any public filing? Ms. Salt responded that, once they started to go forward with the COSS, there was nothing to disclose because they were working to bring forward a revenue program that could be approved by the State, and to get the rates adopted. Again Ms. Salt was asked whether disclosure issues were contemplated at all, and Ms. Salt responded that in her mind there was no breach of contract. She said there was no notification of breach, there was no notice of acceleration, there was no claim filed by the State, and there was no initiation of the administrative process, so she "did not see there was anything to disclose." She thought that they were moving along in an iterative process. She said she "considered whether there was a disclosure issue and decided there was not one." She does not recall discussing this with anyone because in her mind there was nothing to disclose. Specifically, she does not recall considering discussing the issue with outside counsel. She said that had they not completed the COSS and gone forward, then she thought they would have to "deal with the issue."

Regarding the 2003 bond offering that was ultimately pulled, she said she worked with the team on the Official Statement. They hired Orrick as bond and disclosure counsel. She recalls discussions regarding Prop 218 disclosure. She acknowledged that the City had not revised its user rate structure at this time. However, she said she did not consider whether that fact should be disclosed then, since they were working toward compliance, and there was an ongoing dialogue with the State. In response to whether Ms. Salt had conversations with Webber about the fact that the City did not have a user rate system in place that was approved by the State, Ms. Salt responded that she recalls discussions that there was a COSS being done in order to have the State approve a program. Each time Ms. Salt was asked whether or how it was discussed with Webber that the "City did not have a user rate system approved by the State," Ms. Salt would rephrase the question and supply her own answer, stating that they informed Webber that they were "bringing forward a COSS for approval by the State," or alternatively, that they were "moving forward to adopt a program acceptable to the State." She recalls this issue being discussed with a larger group in which Webber, Kahlie and others were present. She thinks it occurred generally on the seventh floor of the CAB. Beyond what she described, Ms. Salt could not recall any specifics of the discussion. Based on Ms. Salt's description, it was unclear that anyone ever told Webber that the current plan used by the City was not approved by the State, and Ms. Salt could offer no greater detail than that she had a general discussion with Webber of the need to complete a COSS in order to have an approved program by the State.

Ms. Salt was shown Exhibit 10, a 2003 draft POS (COS 6959 at 6988-89) and was asked whose responsibility it was to prepare the section entitled "Wastewater System Regulatory Requirements." Ms. Salt stated that she did not know, but that it was not hers. She acknowledged that she did review it. She does not recall whether there was any discussion with anyone at anytime about this language. Regarding the language about no funds or costs having been disallowed, she recalls that this language was refined and that the final offering document

contained different language. She does not recall whose decision it was to revise that language, nor does she know what the revised language was that was included. She recalls that the intention was to revise the language to reflect that there was an ongoing process for review of the rate program by the State. However, she said that without the final document in front of her, she did not feel comfortable responding to questions about it.

She described that her role in connection with annual financials was to review the sections on general litigation. She may have reviewed other sections of the financials in connection with specific questions, but generally she would not review the whole thing.

Exhibit 11 (DK 02310) is a memo to Bill Hanley (Deputy MWWD Director, Service and Contracts Division), from Hedy R. Griffiths (Supervising Management Analyst), re: "SWRCB Feedback - EPA Grant Project No. C-06-1092," dated August 18, 1995. She is not sure why she is copied on it and could only offer that sometimes she is involved in issues regarding the structuring of SRF's, specifically as they impacted bonds, for example in connection with issues like subordination. She explained that it was not within her job responsibilities to review loan agreements.

Troy Dahlberg then asked Ms. Salt about how she came about drafting the November 14, 2002 memo (Exhibit 8). She does not recall that she was contacted specifically to address the memo issue, nor does she recall what the impetus was for her to begin the research other than what was stated in closed session. Wastewater was not her area, it was more Bromfield's area. She said of the memo that, "This was just a job [she] got at some point." She prepared the memo in the normal process and it was just one of the many things on her plate to get through. No one was pushing her to slow down. She recalls that Kahlie asked her in the Fall about the memo, but the Council and the CAO did not contact her to see how it was progressing.

Omid Yazdi of KPMG then asked whether the team that prepared Exhibit 7 came across the 1998 COSS. She does not recall the document. She has no recollection of any questions addressed to her regarding the sewer rate structure in 1999. Mr. Schachter then asked whether Ms. Salt recalled Kehoe giving a press conference on the sewer rate structure, and she said she did not. She did recall a COSS from 1998, but did not know there was anything in it that addressed the user rate issue. She said Bromfield was the one working with the department on the issue at the time. In drafting the 2002 memo, she recalls reviewing the legal documents relating to the issues, but she did not review the COSS's.

When Ms. Salt was shown Exhibit 12, DK 09922 (the May 1998 Pinnacle COSS) she said that she actually had seen the study, but only in connection with City Attorney Aguirre's recent interim report, and she has never read it.

Exhibit 13, a 2002 SRF loan document (no bates) was then shown to Ms. Salt as representative of some of the documents she may have looked at in preparation of her November 14, 2002 memo. Mr. Schachter asked Ms. Salt whether she considered the provisions regarding the user charge system and dedicated source of revenue in preparing Exhibit 8. Ms. Salt responded that she did, along with other provisions of the contracts. When asked whether she thought the City was in breach of contract at time she prepared the 11/14/02 memo, Ms. Salt responded "Absolutely not." The reason she offered to support this position was that, while the City had not received approval for a dedicated source of revenue, it was always contemplated to

be an iterative process and numerous individuals were working in cooperation with the State to find a revenue program that the State would accept. Regarding her understanding of whether the State knew that the City was not allocating costs to an organics component, Ms. Salt said that certainly in 2002 when she began the memo she thought the State did know. She was aware that the State "was requesting" that they include organics in the rate structure. Her assumption was that the State must have known if it was telling the City that it wanted organics included. Reflecting on the reference to the State's "mistaken impression" in the Salient Points memo, she said that her understanding was that the State knew they did not have organics because the State was continuing to request it. Kahlie and Bromfield had told her that the State wanted the inclusion of an organics component.

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